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June 23, 2005

**TO:** Each Supervisor

**FROM:** Thomas L. Garthwaite, M.D.  
Director and Chief Medical Officer

A handwritten signature in black ink, appearing to read "Thomas L. Garthwaite", is written over the printed name and title.

**SUBJECT: ANALYSIS OF THE ADEQUACY OF MEDI-CAL REIMBURSEMENT RATES**

On October 19, 2004 the Board approved a motion instructing the Department of Health Services (DHS) to examine the adequacy of Medi-Cal reimbursement rates for hospitals in Los Angeles County. This report summarizes the findings from member surveys conducted by the Hospital Association of Southern California (HASC) and the Los Angeles County Medical Association (LACMA) and provides an update on joint advocacy efforts to increase Medi-Cal payments for safety net providers. Also included is a draft letter from your Board to the Governor on this important issue.

HASC Hospital Survey Results

HASC sent its survey to its 170 member hospitals. Only nine of these hospitals responded and one of the responding facilities since withdrawn from the Medi-Cal program. The hospital cancelled its contract with the California Medical Assistance Commission (CMAC), the body responsible for negotiating Medi-Cal contracts with hospitals, in October 2004, citing low reimbursement as the primary reason for discontinuing their participation in the program. According to the hospital, the CMAC contract covered only 55 percent of the variable costs for Medi-Cal patients, resulting in \$7 million in annual losses.

HASC also found that a majority of hospitals respondents have considered withdrawing from Medi-Cal. Half of the remaining respondents (four hospitals) indicated that they had considered withdrawing from the Medi-Cal program or may consider it in the future due to the following concerns:

- Insufficient reimbursement (cited by all);
- High denial rates;
- Delays in payment;
- Anticipation of further program cuts; and
- Increasing number of Medi-Cal patients (who are displacing patients with potentially higher reimbursement).

#### LACMA Physician Survey Results

Of the thousands of LACMA physician members in Los Angeles County, only 34 responded to the survey. A quarter of physician respondents (seven physicians) have withdrawn from the Medi-Cal program in the past two years. All but one cited low reimbursement as the primary reason for not continuing to participate in the program. Other issues included reimbursement difficulties or delays and documentation requirements.

Nearly all physician respondents have considered withdrawing from Medi-Cal. Of the 27 physician respondents who currently are Medi-Cal providers, only three have not considered leaving the program. The primary factor of concern is low reimbursement (mentioned by 80 percent of respondents), followed by payment delays/problems, denials, and paperwork requirements.

#### HASC/LACMA Survey Responses on the Impact of Declining Medi-Cal Participation

The two major comments that were raised in the survey are discussed below.

##### *Reduced access to primary and emergency care*

Physicians and hospital administrators surveyed by HASC and LACMA thought that further reductions in the number of Medi-Cal providers would lead to access problems for Medi-Cal patients, including greater travel distances, longer wait times, and difficulty in finding qualified physicians. These access barriers could cause many patients, especially those with chronic conditions, to delay or forego needed preventive and/or maintenance treatment, or to seek routine care through hospital emergency rooms. Increased emergency room utilization, in turn, would likely create access problems for all patients and could impact safety and quality of care as emergency rooms and stressed providers attempt to manage an influx of new patients.

##### *Further deterioration of an already weak health care system*

A reduction in the number of Medi-Cal providers would further increase the burden of care among County and other providers remaining in the Medi-Cal program, according to

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survey responses from physicians and hospital administrators. This could trigger a chain reaction that would force even more providers to withdraw from the program. In addition, since hospitals are required and committed to providing emergency services to all patients presenting in their emergency room, greater utilization of emergency services by Medi-Cal patients with low reimbursement could lead to hospital closures and collapse of the health system.

#### Joint Advocacy Strategy to Increase Medi-Cal Reimbursement

The Department and the County's Chief Administrative Office are working with HASC and LACMA to advocate for increased Medi-Cal funding. To date, the advocacy strategy has focused on ensuring that safety-net providers are not negatively affected by the Medi-Cal hospital financing waiver that the State has been negotiating with the federal government. This waiver would restructure reimbursement for safety net hospitals and could significantly change the amount of payments received, and financial risk assumed, by public and private Medi-Cal providers. Los Angeles County (through the Disproportionate Share Hospital Task Force), HASC, and LACMA (through LA Health Action) have all expressed written concerns to the Schwarzenegger Administration about the potential changes to the program.

The Department and CAO will continue to work in conjunction with HASC and LACMA to make sure that Los Angeles County gets its fair share of Medi-Cal dollars. We will also continue to monitor the State budget process and respond to any unanticipated threats to the Medi-Cal program or opportunities for increased reimbursement.

Please let me know if you have any questions

TLG:jw

Attachment

c: Chief Administrative Officer  
County Counsel  
Executive Officer, Board of Supervisors

[DATE]

The Honorable Arnold Schwarzenegger  
Governor  
State Capitol  
Sacramento, CA 95814

Dear Governor Schwarzenegger:

We appreciate the efforts your Administration has made in helping to secure a stable funding base for health care safety net providers in California. However, as the governing body of the State's largest public health care system, we remain concerned about the adequacy of Medi-Cal reimbursement for services provided in both the public and private sector. If Medi-Cal payments continue to decline or remain flat, the stability of our entire health system could be in jeopardy.

For Los Angeles County hospitals and health centers, Medi-Cal reimbursement is a critical source of funding, accounting for more than a quarter of the system's total health care revenue. However, with the expiration of Los Angeles County's Medicaid waiver, which has brought in \$2.1 billion in federal funds over the past 10 years, the County is struggling to sustain existing health care service levels – despite ongoing efforts to cut costs and increase efficiencies, and in the face of a seemingly unlimited demand for care. Not only does the Los Angeles County health system need additional Medi-Cal dollars to prevent closure of one of more public hospitals, but it also needs a long-term solution to address the growing demand and cost of care for the uninsured.

The private sector is also an important, yet equally fragile, part of the health care safety net in Los Angeles County. Member surveys conducted by the Hospital Association of Southern California and the Los Angeles County Medical Association found that many private hospitals and physicians have recently withdrawn, or are considering withdrawing, from the Medi-Cal program due to insufficient reimbursement levels. One private hospital indicated that Medi-Cal reimbursement covered only 55 percent of the costs of care for Medi-Cal patients and caused losses of \$7 million annually, eventually forcing the hospital to cancel its contract with the program. Declining Medi-Cal participation among private hospitals and physicians decreases access to care for Medi-Cal patients, further increases the financial burden of remaining Medi-Cal providers, and increases reliance on already over-burdened public and private hospital emergency rooms.

In further refining and implementing your Medi-Cal Redesign proposals, we urge your Administration to continue to work with County officials to develop a payment methodology that supports the Los Angeles County health system and allows us to maintain or improve access to services for Medi-Cal and uninsured populations.

Sincerely,

Supervisor Gloria Molina, Chair  
Supervisor Yvonne Brathwaite Burke  
Supervisor Zev Yaroslavsky  
Supervisor Don Knabe  
Supervisor Michael D. Antonovich